

B914-65

27 September 1965
Auto 1 25 10 740

Frank:

Enclosed is the new control chart for the month of August. The chart will be revised and forwarded to you each month. After our meeting a couple weeks ago, it was apparent that the type of report being furnished to you did not present a true picture of the program. Realistically speaking, it did not give me a factual view either, and I realized my knowledge of the program was more from "gut feel."

The chart is based on pure dollars and direct labor hours. The reason for selecting unburdened dollars is due to the difficulty on this program to forecast when the material dollars will be booked. Even commitments cause spikes and do not appear as forecasted. These spikes cloud the chart and obscure the true picture of the program.

In viewing this chart my first impression was that I still wasn't showing you anything, and that these lines are bound to follow each other across the chart. However, I do not believe this is true. The first three months of this budget were based on actuals so they do not count. The remaining hours, however, were based on our proposal to you, but reduced for a bit of a pad. The budget dollars are figured from the budget hours and our divisional average rates for salary and hourly hours which were used to figure the labor costs in the proposal. The actuals, however, are based on the individual salary earned by each person working on the program. Naturally, if we use more hours than budgeted, the dollars will increase accordingly. However, if we use higher level people on the program than the divisional average, then we begin to exceed the budget. In the "dollars" column it is apparent that this is true since the actual dollars are higher than the budgeted dollars which are based on the proposal and division average rates.

In the "hours" column a quick view of the effort being expended on the program is possible. By breaking out salary and hourly hours, the area of effort is definable with salary representing more of the engineering effort and the hourly hours representing the technicians and "tin benders." From time to time there may be an increase in salary hours over that proposed without the corresponding increase in labor dollars. This will indicate that salaried personnel reimbursed for a specific number of hours per week are, in fact, working in excess of these hours with the program benefitting without cost from this additional effort.

In view of the foregoing and with your concurrence, I will no longer forward the two meaningless charts as the financial report, but will replace them with this one chart. For your further information, the total burdened figure booked against the program will be included each month.

Enclosure:

(1) Control Chart

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Next 1 Page(s) In Document Exempt

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